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With SECRET/NO DIS Attachment

To: NSC - Mr. Michael O. Wheeler
ACDA - Mr. Joseph Pressel
CIA - [redacted]
Commerce - Mrs. Helen Robbins
DOD - COL John Stanford
Energy - Mr. William Vitale

Subject: Peaceful Nuclear Cooperation with China

The attached paper on Peaceful Nuclear Cooperation with China has been revised to reflect agency comments provided at the Senior Interagency Meeting held on December 14. The paper also reflects additional comments received from the agencies to date. It is requested that final comments and agency positions at the policy level be forwarded to Mr. Kennedy's office by noon on Thursday, December 16, so that the paper may be submitted to the White House on Friday.

NSC review completed

L. Paul Bremer, III
L. Paul Bremer, III
Executive Secretary

Attachment:**As stated.****SECRET**
DECL: OADR

State Dept. review completed

DRAFT MEMORANDUM**SECRET/NO DIS/NO FORN/ORCON****ISSUE FOR DECISION**

Whether to pursue peaceful nuclear cooperation with China and, if so, under what conditions.

ESSENTIAL FACTORS

China is considering purchasing two power reactors for Guangdong Province with the participation of a Hong Kong utility. Final approval by the central government will depend, among other factors, on financing arrangements and an agreement with Hong Kong to purchase the majority of the power for foreign currency. The British have requested U.S. approval to export Westinghouse reactor technology to China for this project. The French, as well as U.S. firms, also are interested in providing the Guangdong reactors. China also is planning to build a small reactor near Shanghai and has sought US and other foreign assistance.

Peaceful nuclear cooperation would show the Chinese that we are prepared to expand our relationship in areas of mutual benefit. It also offers substantial commercial benefits for U.S. firms. The Department of Commerce estimates that the total potential value of direct cooperation could be \$1.7 billion, and that the potential value of indirect cooperation could be \$1.1 billion. (See Attachment A). It might help us to influence Chinese policy in the non-proliferation area over the longer term. Further, the British believe that UK participation would contribute to closer Chinese ties with the West.

However, there are significant obstacles to and serious political risks in nuclear cooperation with China. Any agreement for cooperation will be subject to Congressional review and scrutiny. China is a nuclear weapons state; thus Chinese refusal to accept IAEA safeguards on imported nuclear materials or facilities is not a legal impediment to cooperating. However, a cooperation arrangement without such safeguards would be criticized both as setting a poor non-proliferation precedent and as potentially assisting a Communist country's nuclear weapons program. It would also be seen internationally as discrimination in favor of a nuclear weapons state.

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Moreover, Chinese exports of nuclear materials, e.g. to South Africa and Argentina, without internationally accepted safeguards or controls threatens to undermine common suppliers' policies which are essential to our non-proliferation goals.

Most important, this summer new intelligence information showed that Pakistan has sought -- and probably has received -- at least some assistance in nuclear explosive design from China. Recent intelligence also shows that China is providing some assistance to Pakistan's efforts to produce highly enriched uranium for its nuclear weapons program.

Either type of Chinese assistance to the Pak program legally would preclude direct US export of reactors or nuclear materials or equipment, unless the President officially determines that China has taken steps representing sufficient progress toward terminating these activities.* This prohibition can be waived, subject to Congressional review if the President determines that not permitting such exports would be seriously prejudicial to the achievement of US non-proliferation objectives or otherwise jeopardize the U.S. common defense and security. We believe that at this time there is an insufficient basis for the President to make either determination.

Finally, because of these Chinese activities, there would be considerable Congressional opposition to any form of nuclear cooperation.

General Walters traveled to Beijing in early August to seek confirmation of the Chinese Ambassador's April 1981 statement to Deputy Secretary Stoeness that China would not assist other nations to develop nuclear weapons. Foreign Minister Huang and Premier Zhao, however, would only repeat that China's views on the nuclear issue

Section 129 of the Atomic Energy Act precludes the export of nuclear materials and equipment or sensitive nuclear technology to any nation found by the President to have, after March 1978, "assisted, encouraged or induced any non-nuclear weapon state to engage in activities involving source or special nuclear material and having direct significance for the manufacture or acquisition of nuclear explosive devices, and has failed to take steps which, in the President's judgment, represent sufficient progress toward terminating such assistance, encouragement or inducement".

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differed from those of the U.S. Although not explicitly disavowing the Ambassador's assurance, each avoided reiterating that China would not assist any other country in the development of nuclear weapons. They asserted that China has no information that Pakistan is developing nuclear weapons and they emphasized that China strongly shares our interest in peace and stability on the subcontinent.

Because of the importance of this issue, Ambassador Hurmel pressed the Chinese once again for this assurance on August 30. On September 28, Vice Minister Han Xu called in Hurmel and reiterated the two points made to us on previous occasions: (1) China and the U.S. have differing views on the nuclear question; and (2) China is no less concerned about peace and stability in South Asia than the U.S. Finally, Han repeated a standard line that China opposes big power monopoly of nuclear weapons and considers it unfair to ask non-nuclear weapons states to give up the right to acquire nuclear weapons. Han also claimed that China does not in any way encourage proliferation.

Even if all the legal and political obstacles were resolved satisfactorily, we would still need to proceed carefully in order to minimize possible adverse regional implications. Indian discovery of the possible extent of Chinese-Pakistan nuclear weapons cooperation, in the estimate of the intelligence community, would lead to "a severe Indian reaction that could range from renewed nuclear testing to direct military action against Pakistan." There is also some risk that India and Pakistan may conclude that US nuclear exports to China represent an easing of our non-proliferation policy with respect to their own nuclear programs.

Before the recent information about Chinese/Pakistani nuclear collaboration was received, we believed that there would be a legal and policy basis for proceeding with nuclear cooperation if (1) China agreed to an adequate bilateral substitute for IAEA safeguards and accepted other statutory conditions for cooperation (2) China adopted nuclear export policies requiring safeguards and other internationally accepted conditions.

Given the recent information, we have not actively sought to negotiate a nuclear cooperation agreement with China. We have told the British that we cannot, under current circumstances, approve their request to transfer Westinghouse technology to China. We have told Westinghouse that we

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may not legally license U.S. nuclear exports to China, and we have not approved requests for the export of US nuclear technology.

A. Do not Actively Seek nuclear Cooperation with China at This Time.

Under this option, we would not seek a waiver of legal provisions to allow exports of US material, equipment or technology for the Chinese reactors currently under consideration. However, we would continue our non-proliferation dialogue with China.

Pros:

-- This would comply with the letter and the spirit of the Atomic Energy Act.

-- It would be most consistent with the President's non-proliferation directive and statement on strengthening IAEA safeguards, restraining the spread of sensitive nuclear technology, and winning international support for uniform non-proliferation export conditions, and with US efforts to strengthen the international framework that helps prevent the spread of nuclear weapons.

-- It entails few political costs or opposition in Congress, and it would avoid a public debate over the extent of Chinese aid to the Pak nuclear weapons program which would hurt broader US interests in China and in Pakistan.

-- As the history of US cooperation with other countries indicates, nuclear cooperation could well prove an irritant, not a benefit, in US-China relations.

-- It would be consistent with US efforts to contain Pakistan's nuclear program which involve major commitments to US prestige and influence.

Cons:

-- US cooperation with China could improve the overall climate of cooperation between our countries, and contribute to political and economic ties.

-- This offers little if any chance for future, nuclear cooperation with China, and thus for obtaining significant sales of equipment, technology, and services by US firms.

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-- Refusal to permit UK firms to use licensed US technology will be a political irritant with the UK, which places considerable economic and political value on British nuclear cooperation with China, with or without the US.

-- If the US does not sell the reactors, other countries will.

B. Pursue nuclear cooperation with China on the basis of certain conditions.

We would make clear to the Chinese our desire to cooperate in this field and conclude a peaceful nuclear cooperation agreement if we (1) get clear and convincing assurances from the highest levels of the Chinese government that China would not assist any country in any way to obtain nuclear weapons, and there is no evidence leading to a contrary conclusion; (2) obtain Chinese agreement to adequate bilateral procedures which assure that our exports are not retransferred without our consent or used for any military purpose; and (3) a Chinese commitment to adhere to international norms in its own nuclear exports. We would need to carefully consider how best to approach the Chinese in order to achieve these three objectives. The President would still need to determine that China had "taken steps which represent sufficient progress toward terminating" assistance to Pakistan's nuclear weapons program. Thus, we would also need to carefully assess the validity of Chinese assurances, and the impact of a Presidential determination on our relations with Pakistan.

Pros:

-- This gives the best chance of resolving our major policy concerns (and our overriding legal consideration) in a way that, if successful, could then reap the full economic and political benefits of the potential sales of reactors, fuel, and services to China as detailed above.

-- It preserves the broader credibility of our non-proliferation policy.

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-- This would virtually destroy the credibility of our non-proliferation policy.

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Options for U.S. Nuclear Exports to China

Maximum Estimated Value of U.S. Exports (\$M) for Guangdong
(2x1000) Nuclear Power Plant

	Engineering and Consulting	Fuel Technology	Nuclear Steam Supply Systems Technology	Turbine Generators	Other Equipment	Total
A Current Legal Provision:	0	0	0	0	0	0
B Technology Transfer: to China:	\$300m	\$10m	\$60m	\$30m	\$10m	\$410m
+ U.S. Licenses:	0	10	60m	0	0	\$70m
C Maintain Cooperation	Same as D if cooperation is achieved within reasonable time frame					
D Export Technology & Equipment: Directly	300	500	400	300	200	\$1.7b

Attachment A

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